

State of Washington

**THIRTY-NINTH
REPORT**
of Washington State Liquor Control Board



**DEFENDANT'S
EXHIBIT**

CASE
NO. C04-0360P

EXHIBIT
NO. 463

Resp to Costco RFP
2101

This year's decline in the consumption of spirituous liquor is, in all probability, buyer reaction to the additional 2-cents-per-fluid-ounce tax that became effective July 1, 1971. And it may reflect a preference for wines and malt beverages among the younger generation.

Merchandising

The trend toward customer satisfaction and convenient service continued: A statewide adjustment of store hours permitted more hours of service with fewer clerks. Better use of store space permitted display of more items. Accessibility to liquor will develop in an orderly fashion in the future in accord with a five-year plan.

Goals for inventory levels in stores, agencies and the warehouse were set at approximately one month in an effort to optimize merchandise turnover.

An expanded repack operation now allows the liquor outlets a larger selection of merchandise. A part-case return program at the warehouse allows stores and agencies to return their excess inventory.

And to help the customer make an intelligent price comparison, unit pricing of liquor was instituted January 1, 1972.

Store No. 101 at the warehouse, with its more efficient system for handling large orders, was designated as the service point for all licensees in the Seattle area who make large purchases.

Regulation of the Industry

The Board continued to bring its regulation of the industry more in harmony with the law, contemporary business practices, the public interests and the public needs. Wholesalers' platform deliveries to retailers of beer and wine are now permitted under prescribed conditions. The prohibition on the sales of liquor on election days was lifted. Sidewalk service, hotel and motel room service and beer in the racetrack stands are now permitted under prescribed conditions. Requirements concerning the entryway to cocktail lounges were modified. These changes are a continuation of a trend by the Board to combine control with customer convenience.

State Liquor Control Concept

As has happened periodically since its adoption, the state liquor control concept came under political scrutiny, starting in January with the authorization of two legislative reviews. Public interest was sufficiently aroused to bring the question of state control before the electorate in the form of Initiative 261. The initiative's defeat in November, 55.11 percent to 44.89 percent, reaffirmed public support for the concept of state liquor control. However, the sizeable opposition suggests the need to review legislation and administration of the system.

Total revenue from all sources totaled \$173,922,009.67. This is an increase of \$695,233.84 over fiscal year 1971 or .40 percent.

Net profit for the year totaled \$30,268,512.58 and sales taxes collected totaled \$45,692,399.96 for a collective total of \$75,960,912.54. This was \$9,641,-915.21 or 14.54 percent greater than in fiscal year 1971.

Budget

Appropriations for administrative expenses of the Board for the 1971-1973 biennium totaled \$26,527,969.00. Expenditures for fiscal year 1972, the first year of the biennium, were \$11,611,095.08, leaving an unexpended balance for the remainder of the biennium of \$14,916,873.92.

ADVERTISING CONTROL

The Board initiated procedures to repeal Regulation (123), which proscribes the sale, use or distribution of "novelty" items bearing liquor brand names on premises licensed to sell liquor at retail. Industry support for repeal was not apparent during a public hearing and the matter was dropped.

Upon review of a long standing policy proscribing use of certain words, the Board determined that the words "Cabaret" and "Brass Rail" were no longer objectionable in trade names for tavern operations.

While only Class H licensees are required by regulation to submit sketches of signs prior to installation, the Board recommended that all types of advertising be submitted before publication in order to forestall possible violations of rules and regulations.

Advertising copy submitted for review included proofs for newspapers, trade publications and periodicals; scripts for radio commercials; point-of-sale items; signs; outdoor displays and billboards.

Letters to advertisers cautioning against continuation of an infraction, received excellent cooperation in most instances; however, serious and repeated violations resulted in disciplinary action against 18 licensees.

BEER AND WINE DIVISION

Wholesale Market Unsteady During Year

Pursuant to amended Regulations (49) and (81), effective July 1, 1971, beer and wine wholesalers were required to establish and post their selling prices to retail licensees. Prior to that, prices at the wholesale level, with certain exceptions, were established and filed on a statewide basis by the breweries and wineries, rather than by the individual wholesalers.

Predictably, the new posting system triggered a general fluctuation in prices, and a lack of price uniformity developed between various marketing areas. Beer prices were particularly unstable, with wine prices affected to a lesser degree. This condition prevailed throughout most of the year.

This situation was aggravated further by the price freeze invoked by the Federal government on August 14, 1971. Numerous price increases were on file with the Board but not yet effective on the date of the freeze. These price raises were rescinded, to comply with the Federal edict, and the wholesalers were obliged to file new price schedules.

Later in August union truck drivers began a strike action against some beer and wine distributors in King County. The labor dispute extended over approximately the next three months, and during this period the affected wholesalers were not able to deliver their products to retail outlets.